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STANROCK URANIUM MINES
L I M I T E D
A N N U A L R E P O R T

1968

STANROCK URANIUM MINES LIMITED

80 Richmond Street West
Toronto 1, Ontario, Canada

Officers

GEORGE ROWE, JR. - - - - - *President*
D. C. MARSHALL - - - - - *Vice-President and Treasurer*
HARMON DUNCOMBE - - - - - *Secretary*

Directors

JAMES BRUCE

Director of Technicolor, Inc., Fruehauf Corporation, Avco Corporation, U.S. Industries, Inc., Revlon, Incorporated, Loew's Theatres, Inc., and other companies; formerly United States Ambassador to the Argentine.

HARMON DUNCOMBE

Secretary of the Company; Member of the law firm of Fulton, Walter & Duncombe, New York, N.Y.; Director, International Flavors & Fragrances Inc.

JOHN R. DUNNING

Member of the Executive Committee of the Company; Dean of the Faculty of Engineering and Director of Scientific Research, Columbia University, New York, N.Y.

ROBERT FRANKEL

President of Frankel Shops, Inc., Long Island, N.Y.; Vice-President and Director of Granite Equipment Leasing Corporation; Director of Cybermark Systems Inc. and Colonial Commercial Corp.; Chairman of Board of Ram Hart Systems Inc.

V. V. JACOMINI

Independent business consultant, Houston, Texas.

D. C. MARSHALL

Vice-President, Treasurer and Member of the Executive Committee of the Company.

JOHN F. A. NISCO

Officer, William D. Witter, Inc., investment bankers, New York, N.Y.

D. S. ROBERTSON

Member of the Executive Committee of the Company; Consulting Geologist, Toronto.

GEORGE ROWE, JR.

President and Member of the Executive Committee of the Company; Member of the law firm of Fulton, Walter & Duncombe, New York, N.Y.; Director, Foster Wheeler Corporation.

J. CARLTON WARD, JR.

Member of the Executive Committee of the Company; independent business consultant, Norfolk, Connecticut; formerly President and Chairman of the Board, Vitro Corporation of America.

Counsel

FULTON, WALTER & DUNCOMBE
30 Rockefeller Plaza
New York, N.Y. 10020

CASSELS, BROCK
165 University Avenue,
Toronto 1, Ontario

Auditors

HARBINSON, GLOVER & CO.
101 Richmond St. West
Toronto, Ontario

STANROCK URANIUM MINES LIMITED

President's Report

TO THE STOCKHOLDERS:

Financial statements for your Company for the year 1968 are included with this report. We continue to be in excellent financial condition with net current assets of approximately \$900,000 and long term debt of only \$40,000.

In 1968, electrical utility companies in the United States placed orders for fourteen additional nuclear-electric power plants with a combined generating capacity of 13,000 megawatts. This pace is slower than the pace at which the industry expanded in 1966 and 1967, but, nevertheless, represents an enormous additional investment in nuclear plants. The trend to larger units continued. The average capacity of the fourteen new plants was more than 900 megawatts. Six of the fourteen, with ratings of more than 1,000 megawatts, will be at least as large as the largest steam generating unit now operating in the world.

Projected demand in the U.S. for uranium oxide continues to greatly exceed the known low cost United States reserves. As we have previously reported to you, the United States Atomic Energy Commission estimates that by 1980 U.S. nuclear energy capacity will be

approximately 150,000 megawatts. The AEC estimates that the total consumption of U_3O_8 through that year, plus an 8-year forward reserve, will be approximately 650,000 tons of U_3O_8 or roughly 450,000 tons in excess of the known reserves in the United States today which can be commercially exploited at a price per pound of \$10. The ratio of projected demand to known reserves elsewhere in the free world is expected to be in approximately the same range, according to the AEC.

The tremendous interest in this relatively new source of power, and the shortage of low cost reserves, is evidenced by the amount of exploratory drilling both under way and anticipated in the immediate future. The AEC estimates that in the next few years an annual average of 25,000,000 feet of drilling for uranium will be carried out in the western United States.

It seems to us very unlikely, in the absence of some extraordinary development, that the price of U_3O_8 will remain at present levels, that is, \$7.50 - \$8.00 per pound. We are looking forward with confidence to an increase in price and other improved economic conditions in the industry which will enable us to resume conventional mining of our Elliot Lake uranium deposits.

We have been especially active this year in attempting to increase our uranium holdings and we have further acquisitions under consideration at this time.

During the year, we continued to produce U_3O_8 by the bacterial leaching method. All of our production is sold to a reactor manufacturer at a price in excess of the \$5.00 Canadian Government stockpile price.

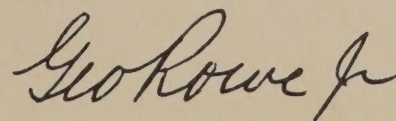
In 1968, we produced by bacterial leaching uranium oxide with a sales value of \$512,598. Interest and miscellaneous income amounted to \$45,401. For the year as a whole, after costs of \$585,333, we incurred a net loss of \$27,334. These figures do not reflect a substantial build-up of uranium values in 1968 in water underground as a result of the flooding of areas of the mine under our bacterial leaching program. We expect to recover this uranium in due course. Deferred expenses, primarily those incurred in work on our plant and equipment at Elliot Lake in anticipation of future conventional mining operations, were \$191,199 in 1968.

A feasibility study by D. S. Robertson & Associates, consulting geologists and mining engineers, was completed during the year.

The study included a reassessment of our Elliot Lake uranium reserves. We have substantially increased our estimate of reserves of assured and probable uranium-bearing material to approximately 10,000,000 tons grading approximately 1.5 pounds of U_3O_8 per ton, plus possible additional reserves of considerable magnitude. These reserves do not include the deposits which exist on the near-by properties of North Rock Mines Limited, in which we have a 51% interest, or which may exist on the relatively unexplored properties which we acquired from The Stanward Corporation in 1967.

We take this opportunity to thank Mr. B. G. MacDermid, Mine Manager, and all our employees who have done a fine job for us at the mine. We thank our shareholders for their support.

Very truly yours,



President.

February 14, 1969.

STANROCK URANIUM

Balance Sheet—as at

ASSETS

Current:

Cash	\$ 499,928	\$ 1,073,150
Accounts receivable (Note 1)	362,746	200,815
Inventory — uranium oxide at contract price	\$ 14,716	15,775
— yttrium oxide at lower of cost or market	3,790	8,523

Prepaid expenses	18,506	94,129
	122,502	
	1,003,682	1,392,392

Investment in and advances to subsidiary	6,338	4,191
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Fixed, at cost:

Mining properties	596,932	596,932
Land	24,000	24,000
Buildings, machinery and equipment	16,185,544	16,168,935
Less: Accumulated depreciation	16,109,226	(16,087,823)

76,318

697,250 702,044

Option payments (Note 2)	27,506	—
Deferred charges (Note 3)	433,166	241,967

Approved on behalf of the Board:

GEORGE ROWE, JR. Director.

D. C. MARSHALL, Director.

\$2,167,942 \$ 2,340,594

AUDITOR

To the Shareholders of
Stanrock Uranium Mines Limited.

We have examined the balance sheet of Stanrock Uranium Mines Limited, of funds for the year then ended. Our examination included a general review of the as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position, source and application of its funds for the year then ended, in accordance with generally accepted accounting principles.

Toronto, Ontario,
February 5, 1969.

M MINES LIMITED

December 31, 1968

LIABILITIES

Current:

Accounts payable and accrued liabilities	\$ 65,342	\$ 75,376
Long-term debt due within one year	40,000	40,000
U.S. taxes payable	—	113,500
	<u>105,342</u>	<u>228,876</u>

Long-term:

Note payable (secured) (Note 4)	\$ 80,000	120,000
Less: Due within one year	<u>40,000</u>	<u>40,000</u>
	40,000	80,000

SHAREHOLDERS' EQUITY

Capital:

Authorized:

10,000,000 common shares with a par value of
\$1.00 each (Note 5)

Issued, fully paid and non-assessable (Note 6):

6,503,488 common shares	6,503,488	6,467,573
Less: Discount on shares (Net)	<u>2,130,422</u>	<u>2,143,256</u>
	4,373,066	4,324,317

Deficit	<u>2,350,466</u>	<u>2,292,599</u>
	2,022,600	2,031,718

	<u>\$2,167,942</u>	<u>\$2,340,594</u>
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REPORT

December 31, 1968 and the statements of earnings, deficit and source and application
ing procedures and such tests of accounting records and other supporting evidence

the Company as at December 31, 1968 and the results of its operations and the
cepted accounting principles applied on a basis consistent with that of the preceding

HARBINSON, GLOVER & CO.,
Chartered Accountants.

STANROCK URANIUM MINES LIMITED

Statement of Earnings

For the Year Ended December 31, 1968

		1967 Comparative figures
Sales of uranium and yttrium concentrates	\$ 512,598	\$ 434,898
Operating expenses:		
Washing and milling	\$ 392,238	477,415
Administrative	171,693	150,276
Depreciation	21,402	17,269
	<u>585,333</u>	<u>644,960</u>
	72,735	210,062
Other income:		
Interest	45,018	35,727
Miscellaneous	—	645
	<u>27,717</u>	<u>173,690</u>
Net loss for the year before special items	27,717	173,690
Disposal of machinery and equipment	383	16,132
Net profit from purchase, operation and sale of the Fulfillment Division	—	138,431
	<u>27,334</u>	<u>19,127</u>
Acquisition and related expenses not deferred	—	6,899
Net loss after special items	<u>\$ 27,334</u>	<u>\$ 26,026</u>

Statement of Deficit

For the Year Ended December 31, 1968

Balance beginning of year	\$2,292,599	\$2,127,744
Add: Adjustments to prior years' earnings (Note 9)	30,533	—
Excess of discounted value of common shares issued for the assets of The Stanward Corporation over book value thereof	—	138,829
	<u>2,323,132</u>	<u>2,266,573</u>
Net loss for year after special items	27,334	26,026
Balance end of year	<u>\$2,350,466</u>	<u>\$2,292,599</u>

STANROCK URANIUM MINES LIMITED

Statement of Source and Application of Funds

For the Year Ended December 31, 1968

Source of funds:

Issue of shares:

For cash	\$ 48,750	\$ 62,200
For assets	—	736,501
	<u>48,750</u>	<u>798,701</u>

Application of funds:

Net loss for the year, less depreciation	5,932	8,757
Purchase of fixed assets:		
Mining claims	—	296,932
Machinery and equipment	16,609	20,672
Option payments	27,506	—
Deferred charges	191,199	241,967
Advances to subsidiary	2,147	4,191
Reduction in note payable	40,000	40,000
Prior years' expenses	30,533	—
	<u>313,926</u>	<u>612,519</u>

(Decrease) or increase in working capital	(265,176)	186,182
Working capital, January 1	1,163,516	977,334
Working capital, December 31	<u>\$ 898,340</u>	<u>\$1,163,516</u>

STANROCK URANIUM MINES LIMITED

Notes to Financial Statements

as at December 31, 1968

- Note 1.** An amount equal to \$353,902 of accounts receivable represents part of the sales price for uranium oxide sold by the Company. This amount is not due the Company until the Company receives shipping instructions thereto or April 1, 1970, whichever is earlier.
- Note 2.** In November 1967, the Company obtained an option to acquire a 51% interest in a group of seventeen mining claims. To exercise the option the Company is required to expend an additional \$120,000 prior to 1977 on such claims.
- Note 3.** In anticipation of the resumption of conventional mining operations, expenses of a feasibility study and restoration of the plant and mine, together with exploration costs, have been deferred.
- Note 4.** The note bears interest at 5¼%, is due September 1, 1970 and is secured by a mortgage on the Company's realty.
- Note 5.** Options outstanding as at December 31, 1968:
- (a) Options granted during 1966 to officers and other key employees for 44,500 common shares of the Company, exercisable before May 24, 1971 at \$1.70 (U.S.) per share.
 - (b) Options previously granted by The Stanward Corporation, and in connection with the purchase of that Corporation's assets and the assumption of that Corporation's liabilities, converted to options on 3,335 common shares of the Company, exercisable before August 11, 1970 at \$.28 (U.S.).
 - (c) Option granted during 1968 to an officer for 5,000 common shares of the Company exercisable before February 7, 1973 at \$4.06 (U.S.) per share.
- Note 6.** During the year 35,915 shares were issued for \$48,750 cash. Such shares were issued pursuant to the exercise of options.
- Note 7.** As of the date of this balance sheet, the Company has approximately \$18,500,000 in undepreciated capital cost allowance which may be claimed for tax purposes, at the rate determined by law, against future taxable income of the Company.
- Note 8.** The Company, as transferee of the assets and business of The Stanward Corporation, has been subject to claims by the Internal Revenue Service for income taxes payable by Stanward for the year 1960 and certain years prior thereto. These claims have been the subject of negotiations between U.S. counsel for the Company and such Service. It is the opinion of counsel that the Company is not liable for any such taxes but is entitled to a refund of taxes paid.
- Note 9.** The Company, as the successor to Stanward, was plaintiff in an action instituted in 1961 in the Supreme Court of Ontario to recover royalties from Denison Mines Limited. A trial court decision and an appeal therefrom in the Supreme Court of Ontario, both adverse to the Company, were affirmed by the Supreme Court of Canada in 1968. Expenses of this litigation were charged to deficit.

